



## Economic Advisory Council June 2020 Meeting Minutes

June 5, 2020

10:00 am – 12:00 pm

Virtual Meeting

### Agenda

9:45 am	<b>Webex conference lines open</b>
10:00 am – 10:10 am	<b>Call to Order</b> <i>Shahrokh Fardoust, Chair</i> <b>Introductory Remarks</b> <i>Thomas Kelly, Vice President Department of Policy and Evaluation</i> <b>MCC response to EAC recommendations</b> <i>Mark Sundberg, MCC Chief Economist</i>
10:10 am – 10:55 am	<b>Implications of the COVID-19 Pandemic on Development Priorities and MCC Analytics</b> <i>Introductory remarks by Peter Glick, MCC Economist</i>
10:55 am – 11:00 am	<b>Break</b>
11:00 am – 11:45 am	<b>Industrial Policy and MCC Programs</b> <i>Introductory remarks by Mesbah Motamed, MCC Economist</i>
11:45 am – 12:00 pm	<b>Administrative Next Steps</b> <i>Mark Sundberg, MCC Chief Economist</i> <b>Opportunity for Public Comment</b> <i>Mesbah Motamed, Designated Federal Officer</i> <b>Meeting Adjourns</b> <i>Shahrokh Fardoust, Chair</i>

Meeting began at 9:00 am Eastern time.

### Introductions and Updates

Shahrokh Fardoust, EAC chair, called the third session of the EAC to order.

Tom Kelly, Acting VP for Development Policy and Evaluation, thanked members for attending this first virtual session of the EAC and spoke about how Covid-19 has affected MCC operations. It is difficult for MCC to work in countries now: counterparts are working from home with limited connectivity; consultants and contractors are not able to go into the field, and data collection has all but stopped. This poses challenges for advancing diagnostic work, program implementation, and evaluation.

Mark Sundberg, Chief Economist and DVP, reported out on how MCC is making use of recommendations from the Council, focusing on the last EAC meeting. All four topics discussed on November 1, 2019 have some influence on work currently underway:

- Tariff policy recommendations to integrate performance metrics on quality of service to customers in the tariff review process will be brought to bear on performance contracting with the power utilities in Burkina Faso and Senegal;
- Early beneficiary and distributional impact analyses will be used to inform development of new programs under preparation in Mozambique and Kenya;
- Discussion of Results Based Financing experience is being used to spark deeper assessment in emerging lessons and a guidance note from MCC experience in Sierra Leone and Morocco;
- Discussion from the presentation on “Jump starting development and the New Structural Economics” has informed discussion of industrial policy in Sub-Saharan Africa in the current EAC agenda.

## **Session I: Implications of the COVID-19 Pandemic on Development Priorities and MCC Analytics**

### [Briefing Note: COVID-19](#)

The Chair opened the session, and Peter Glick, Economist in EA, introduced the issues for discussion. What implications does Covid-19 carry for MCC’s practice? Much will depend on what form the pandemic takes going forward. One relatively benign scenario posits short-term disruptions to international markets (labor, capital, trade) but a gradual recovery to business as usual. A much worse scenario, in contrast, poses significant short- as well as long- term consequences, most of which may impinge strongly on future growth. Under the latter scenario, advanced economies may turn inward, with a consequent contraction in global supply chains and in trade generally; international migration and remittances may decline sharply and only recover gradually if at all; a serious debt crisis is likely to emerge; and both private domestic investment and foreign direct investment may fall and remain subdued. Within countries, both short term and persistent problems may emerge in labor markets, compromising food security, safety measures, and health. At the same time, there may be new sources of growth that represent opportunities for developing countries, for example in digitally-based services, including e-commerce and fintech and mobile banking. EAC members were asked to reflect on these scenarios and priorities for development agencies. The following points emerged from the discussion:

- *Responding to Impacts on Trade* It was suggested MCC's note appeared to forecast negative effects of COVID on global trade, thus necessitating turning inward in response to the pandemic. MCC clarified that evidence already exists of declining trade activity and disruption to supply chains. MCC was seeking EAC's insights on how MCC countries may best respond to these negative trends should they continue and deepen. Discussion subsequently touched on the merits and limitations of regional trade as a substitute for global trade. Members indicated that international trade will likely remain a key instrument for growth and recovery from the current slump, and suggested MCC support efforts to put in place mechanisms by which MCC countries can deal with the downside risks associated with globalization while maintaining trade as a growth strategy.
- *Investments in Health and Resilience.* MCC's constraints to growth analyses and investment choices should consider countries' ability to prepare and respond to disease outbreaks and other shocks. The absence of such capabilities is itself a constraint to growth. This includes both public health capacities and investments in resilience to a pandemic's ensuing economic shocks. Strong social safety nets are needed to protect a country's most vulnerable citizens from unemployment and income loss as well as prevent erosion of their human capital investments.
- *Dealing with the debt crisis.* A debt crisis appears inevitable. It was already looming and the Covid-19 crisis is pushing several countries into default in the absence of some kind of debt relief. Reduced fiscal space will threaten growth in developing countries, and financial pressures are likely to be more severe (compared to the 2008-09 global financial crisis) since this time a much larger portion of these countries' external debt is held by private sector bond holders. ☒
- *Investment in digitalization and internet access.* Several members noted that this crisis underscores the importance of digital technologies for people's livelihoods and for sustaining education services. In addition, information and communication technology (ICT) infrastructure, particularly over mobile networks, can accurately target and rapidly provide benefits to vulnerable citizens and communicate location-specific information during a crisis and beyond. There is scope for low cost (e.g. 2G) solutions to remote areas and a great need for expanding internet access. Currently, home access to ICT is extremely low among the lowest income groups of developing countries, and MCC was encouraged to give greater attention to the importance of ICT access and the role of digitalization (e-commerce, fintech, e-govern, etc.) in supporting growth strategies going forward.
- *Identifying at risk jobs.* The identification of the most at-risk economic sectors, job categories, and population segments is important for addressing growth strategies to enhance resilience. It was suggested that MCC consider developing a methodology and tools to help map jobs most at risk in MCC countries.
- *Environment and Climate Change Implications.* COVID-19's economic impacts have unexpectedly led to reductions in environmental pollution, with anticipated health benefits. The pandemic may provide an opportunity to rethink the tradeoff between economic growth and environmental quality. MCC should consider this in its future country dialogue work on growth and the environment, including climate change.

Articles cited during the discussion include:

- [Blackman, A., A. Ibañez, A. Izquierdo, P. Keefer, M. Mesquita Moreira, N. Schady, T. Serebrisky \(2020\) Public Policy to Tackle COVID-19: Recommendations for Latin America and the Caribbean. InterAmerican Development Bank.](#)
- [Brown, C., M. Ravallion, D. van de Walle \(2020\) Can the World's Poor Protect Themselves from the New Coronavirus? NBER Working Paper No. 27200.](#)
- [Monga, C. \(2020\) The Misguided War on Global Value Chains. Project Syndicate.](#)

- [Monga, C. \(2020\) Economic Policies to Combat COVID 19 in Africa. Project Syndicate.](#)
- [Ravallion, M. \(2020\) Pandemic Policies in Poor Places. CGD Note. Center for Global Development.](#)

## Session 2: Industrial Policy and MCC Programs

### [Briefing Note: Industrial Policy](#)

The Chair opened the session followed by a presentation by EA Economist, Mesbah Motamed. MCC activities in Ethiopia are focused on generating foreign exchange through strengthening export performance. Part of this includes reorienting the government's approach to industrial support and regulation. Current trends in global value chains and manufacturing technologies suggest that the formula for East Asia's miracle may not be replicable in Ethiopia or anywhere else in sub-Saharan Africa. What policies can unlock developing countries' export capacities? What role should government play to incentivize private investment in export activities? The following points were raised during discussion:

- *The role of State-owned enterprises (SOEs).* There were differing views of the potential contribution of SOEs. Taking Ethiopia as an example, it was noted that there are examples of extraordinary success, such as Ethiopian Airlines. In other instances, limited competition and state subsidies have led to high cost and poor-quality services. In many parts of East Asia, SOEs played little or no role in export driven development, where technology and market access through multi-national corporations was paramount. It was agreed that addressing the business climate and market failure issues are central to success.
- *Different Kinds of Industrial Policy.* Distinctions between sector-neutral "horizontal" policies and sector-specific vertical policies are not so clear-cut in practice, inasmuch as investments invariably affect sectors and firms unevenly, e.g. geographically or by input needs. Rather than pretend certain investments are sector-neutral, governments should be as transparent as possible about their possible differential effects. This will raise the private sector's confidence in the process. Regardless of horizontal or vertical approaches, supports targeting specific sectors, e.g. investments in sector-specific infrastructure or facilitating continued SOE debt and operations, are no substitutes for deep, sector- or economy-wide policy reforms to address market failures. In fact, inasmuch as horizontal industrial policy operates on an economy-wide basis, e.g. taxes, exchange rate regimes, and business regulatory climates, reforms to policy may indeed take priority over sector-specific supports, particularly if such reforms address specific market failures.
- *Capitalizing on Manufacturing and Trade* While rich countries have seen the labor share of manufacturing decline, globally, manufacturing growth is outpacing overall GDP growth, suggesting that de-industrialization is not as imminent as some observers suggest. Since Ethiopia has a large reservoir of semi-skilled labor, it must compete as a low-cost supplier while lowering other input costs, particularly through pragmatic policy reforms.
- *Targeting global markets.* For African exporters, regional market integration cannot be a substitute for larger, rich country market access which provides greater growth opportunities. Critical to improving market access is reducing the remaining tariff barriers to markets, not just in manufacturing but also agriculture.
- *Political Economy of Industrial Policy.* East Asia avoided entrenched political capture that often accompanies interventions. Success in Africa will require similar avoidance. The situation in manufacturing exports and deindustrialization may not be as pessimistic as portrayed by some

economists. Manufacturing export has been strong but often from a small base, not showing up in the whole economy. It will take a long time before manufacturing accounts for a significant share of total exports. In Ethiopia, for example, success stories revolve around the constructive role played by a country's political economy, credit commitments, and provision of public goods. MCC analytics need to be cognizant of these issues to enhance the impact of its grant support.

- *Policies versus Implementation.* Policy advice from MCC should take account of government's implementation capacity. Acknowledging the importance of implementation, furthermore, implies the need for a strategy to help governments gain such capacity and apply it effectively.

## Opportunity for Public Comment

Following the conclusion of the second topic, the chairman asked for members of the public participating remotely to come forward for comment. However, no comments were made.

The meeting adjourned at 12 pm.